



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

July 9, 1997

Mallon Oil Company
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-3828

Dear Mr. Bruce:

Reference is made to: (i) your application dated May 22, 1997, on behalf of Mallon Oil Company ("Mallon"), for an unorthodox Morrow gas on an existing 320-acre, more or less, gas spacing and proration unit comprising the E/2 equivalent of Section 3, Township 24 South, Range 26 East, NMPM, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico; (ii) to your subsequent correspondence dated May 23, June 2, and June 4, 1997; and, (iii) Division records in Santa Fe.

The Division Director Finds That:

- (1) Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of said Section 3, which comprises 319.18 acres, is within the horizontal limits of the South Carlsbad-Morrow Gas Pool;
- (2) Rules, regulations, and policies currently governing the South Carlsbad-Morrow Gas Pool include, but are not necessarily limited to, the following:
 - (i) the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the South Carlsbad-Morrow Gas Pool*", as promulgated by Division Order No. R-8170, as amended, which includes provisions for 320-acre spacing and requirements for well locations to be no closer than 660 feet to the side boundary nor 1980 feet from the end boundary of the proration unit nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary;
 - (ii) Division Order No. R-10328, issued by the New Mexico Oil Conservation

Commission in Case 11211 on March 27, 1995, which order suspended gas prorationing in the South Carlsbad-Morrow Gas Pool; and,

- (iii) Division General Rule 104.D(3), which limits the number of wells in a single spacing unit in non-prorated pools to one;
- (3) South Carlsbad-Morrow gas production from the subject 319.18-acre gas spacing and proration unit is currently dedicated to the Bell "3" State Com Well No. 1 (API No. 30-015-21420), located at a standard gas well location that is 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 3;
- (4) Said Bell "3" State Com Well No. 1 is currently owned and operated by, producing gas for, and covered under a \$50,000.00 blanket plugging bond issued by The Aetna Casualty and Surety Company of Hartford, Connecticut in the name of the Prospective Investment and Trading Company, Ltd. of Tulsa, Oklahoma;
- (5) The applicant in this matter, Mallon, is proposing to drill the Bell "3" State Com Well No. 2 at an unorthodox gas well location within the existing 319.18-acre gas spacing and proration unit that is 1330 feet from the South line and 1980 feet from the East line (Unit J) of said Section 3;
- (6) Mallon, by prior agreement with Nearburg Exploration Company, L.L.C., an offset operator to the subject unit, seeks to included within the provisions of any order issued in this matter a 20.6 percent production penalty to be applied the Bell "3" State Com Well No. 2's ability to produce into a pipeline as determined from deliverability tests to be conducted on said Well No. 2 on a semi-annual basis;
- (7) The subject application has been duly filed under the provisions of Rule 104.F of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996; and,
- (8) The subject application, which serves to prevent waste and being in the best interest of conservation, should be approved pursuant to Division General Rule 104.F(2) and Rule 2(d) of said Order No. R-8170, as amended, provided however:
 - (i) only one operator of the subject 319.18-acre gas spacing unit be designated prior to the issuance and approval of the Form C-101, "Application for Authorization to Drill" for the Bell "3" State Com Well No. 2;

- (ii) at the time of completion of the Bell "3" State Com Well No. 2, both wells will not be allowed to produce simultaneously and concurrently and only one of the two wells be allowed to produce from the South Carlsbad-Morrow Gas Pool at any one time; and,
- (iii) the Bell "3" State Com Well No. 2 be assessed a production penalty of 20.6 percent to be applied towards the its ability to produce into a pipeline as determined from a deliverability test to be conducted on the well on a semi-annual basis.

It Is Therefore Ordered That:

(1) The existing 319.18-acre gas spacing and proration unit in the South Carlsbad-Morrow Gas Pool comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 3, Township 24 South, Range 26 East, NMPM, Eddy County, New Mexico, currently dedicated to the Bell "3" State Com Well No. 1 (API No. 30-015-21420), located at a standard gas well location that is 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 3, be designated only one operator.

(2) This operator, once designated, shall be approved by the Supervisor of the Artesia District Office of the Division.

(3) The approved operator shall then be allowed to drill the proposed Bell "3" State Com Well No. 2 at an unorthodox gas well location within the existing 319.18-acre gas spacing and proration unit that is 1330 feet from the South line and 1980 feet from the East line (Unit J) of said Section 3.

(4) Once the Bell "3" State Com Well No. 2 is completed the operator shall elect which Morrow producing gas well on the subject 319.18-acre unit will produce and which will be either plugged or shut-in. Only one South Carlsbad-Morrow producing gas well shall be allowed to produce within the subject unit at any one time.

Provided However:

(5) The Bell "3" State Com Well No. 2 is hereby assessed a production penalty of 20.6 percent. The production penalty shall be applied towards the well's ability to produce into a pipeline as determined from a deliverability test to be conducted on the well on a semi-annual basis.

Administrative Order NSL-3828

Mallon Oil Company

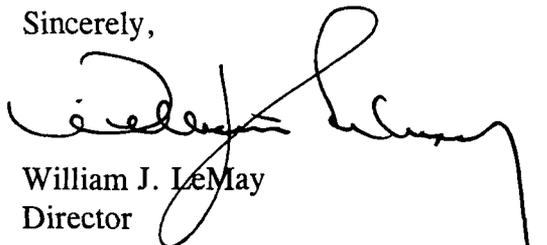
July 9, 1997

Page 4

(6) The operator shall advise the supervisor of the Artesia district office of the Division of the date and time of conductance of the above-described production test(s) in order that they may be witnessed.

(7) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



William J. LeMay
Director

WJL/MES/kv

cc: Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe